

MESA GRANDE RESOURCES, INC.

1200 PHILTOWER BUILDING

TULSA, OKLAHOMA 74103

(918) 587-8494

June 17, 1986

To All Working Interest Owners
(See Attached List)

Re: Intruder #1 Well
Township 25 North, Range 2 West
Section 20: East Half
Rio Arriba County, New Mexico

Gentlemen:

Mesa Grande Resources, Inc. proposes the drilling of a Gallup-Dakota well to be located in the NE/4 SE/4 of Section 20, Township 25 North, Range 2 West, with the E/2 of the section designated as the 320 acre drilling block.

Our records indicate that you are the owner of a working interest within this drilling block. Accordingly, we enclose herewith two (2) copies of our Authority for Expenditure (AFE) along with a proposed Operating Agreement.

After reviewing these materials, if you wish to participate in the drilling of the Intruder #1 Well, please so indicate by signing the AFE and returning one executed copy to this office. An Exhibit "A" and signature pages for the Operating Agreement will be furnished to you at a later time.

If you do not wish to participate in the drilling of this well, Mesa Grande Resources, Inc. is interested in acquiring a farmout on your acreage on the following basis:

Mesa Grande Resources, Inc. would earn 100% of your leasehold interest subject to reservation by you of a proportionate 5% overriding royalty convertible to a proportionate 30% working interest in the assigned acreage after payout.

It is our intention to spud the Intruder #1 Well in mid-August. Therefore, we would appreciate your early review of and response to our proposals.

Very truly yours,

Kathy Michael

Kathy Michael
Landman

KM:dw
Enclosures

BEFORE EXAMINER	STOGER
OIL CONSERVATION DIVISION	
Mesa Grande	EXHIBIT NO. 2
CASE NO.	9035

WORKING INTEREST OWNERS

INTRUDER #1 WELL
E/2, Section 20-25N-2W
Rio Arriba County, New Mexico

Mesa Grande, Ltd.
1305 Philtower Building
Tulsa, Oklahoma 74103
Attention: L. Sweet

Arriba Company, Ltd.
Post Office Box 35304
Tulsa, Oklahoma 74153
Attention: G. L. Morris

ARCO Oil & Gas Company
Post Office Box 1610
Midland, Texas 79702
Attention: Glen Gee

Jerome P. McHugh
650 South Cherry, Suite 1225
Denver, Colorado 80222
Attention: Kent Craig

Dugan Production Corp.
Post Office Box 208
Farmington, New Mexico 87499
Attention: Robert Stovall

Kenai Oil & Gas Inc.
One Barclay Plaza
1675 Larimer Street, Suite 500
Denver, Colorado 80202
Attention: John H. McVeagh

ORIGINAL

AUTHORITY FOR EXPENDITURE

Date: 05/31/86 Well Name INTRUDER #1 T.D. 8195' (Dakota)
 Location: NE/4 SE/4 Sec. 20-25N-2W, Rio Arriba County, New Mexico

Operator: MESA GRANDE RESOURCES, INC. Prepared by: David Blandford

INTANGIBLE COSTS	Drill/Test	Complete/Equip.	Note:
LOCATION:			
Survey Location	\$ 600	\$ 400	
Build Roads & Pad	3,500	3,000	
Surface Damages	5,000		
Restoration	5,000	-	
DRILLING: \$ 101,325			
Footage 8195 ft @ \$ 11.29 /ft	92,525		
Daywork 2 days WDP @ \$ 4400 /day	8,800		
Daywork - days WODP @ \$ 4300 /day	-		
WIRELINE SERVICES:			
Electric Logs	9,100		
Cement Bond Logs		3,500	
Perforating		6,500	
PROFESSIONAL SERVICES:			
Title Opinion	3,500	5,000	
Mud Logger	6,500		(1)
Geological	6,000	600	
Engineering	6,000	5,500	
Other	500	1,000	
SUPPORT SERVICES:			
Water Purchase	5,000	2,000	
Mud & Chemicals	28,000	3,000	
Trucking & Hauling	4,000	8,000	
Cement Casing - SURFACE	3,500		(2)
Cement Casing - PRODUCTION		23,350	(3)
Equipment - Rental/Serv.	1,500	8,000	
Welding	300	2,000	
Completion Workover Rig		27,000	(4)
Acid Treatment		15,000	
Frac Treatment		50,000	
Labor - Casing Crews		-	
Labor - Miscellaneous	1,500	3,000	
Initial Well Testing		2,000	
Administrative, General Expenses	3,350	4,500	
SUBTOTAL:	194,175	173,350	
Contingencies - 10%	19,415	17,335	
Plug and Abandonment	2,500		
TOTAL INTANGIBLE:	\$ 216,090	\$ 190,685	
TANGIBLE COSTS			
TUBULAR EQUIPMENT			
Surface Casing	\$ 4,500		(5)
Production Casing		\$ 41,800	(6)
Tubing		20,100	(7)
Casing Equipment		8,000	
SURFACE EQUIPMENT			
Storage Tanks		14,200	(8)
Tank Connections		10,500	
Line Pipe/Labor		9,500	
Gas Processing Unit		10,000	
Separator/Heat-Treat.		-	
Water Tank		-	
Pumping Unit and Engine		56,000	
Sucker Rod String		14,000	(9)
P.U. Connections		3,500	(10)
MISC. EQUIPMENT			
Christmas Tree	2,000	3,900	(11)
Packer, Tubing Anchor		1,250	(12)
Valves and Fittings	500	2,000	
Gates/Culverts/Cattle Guards		3,500	
TOTAL TANGIBLE:	\$ 7,000	\$ 198,250	
DRY HOLE TOTAL:	\$ 223,090		
COMPLETED TOTAL:		\$ 388,935	
TOTAL ESTIMATED WELL COST: \$ 612,025			

Approvals

✓ Company: Mesa Grande, Ltd. By: W.I. 59.375000 % Date: _____
 Company: ARCO By: W.I. 12.500000 % Date: _____
 Company: Kenai Oil & Gas By: W.I. 12.500000 % Date: _____
 Company: Jerome P. McHugh By: W.I. 9.375000 % Date: _____
 Company: Dugan Production Corp. By: W.I. 3.125000 % Date: _____
 ✓ Company: Arriba Company Ltd. By: W.I. 3.125000 % Date: _____
 Company: By: W.I. % Date: _____